



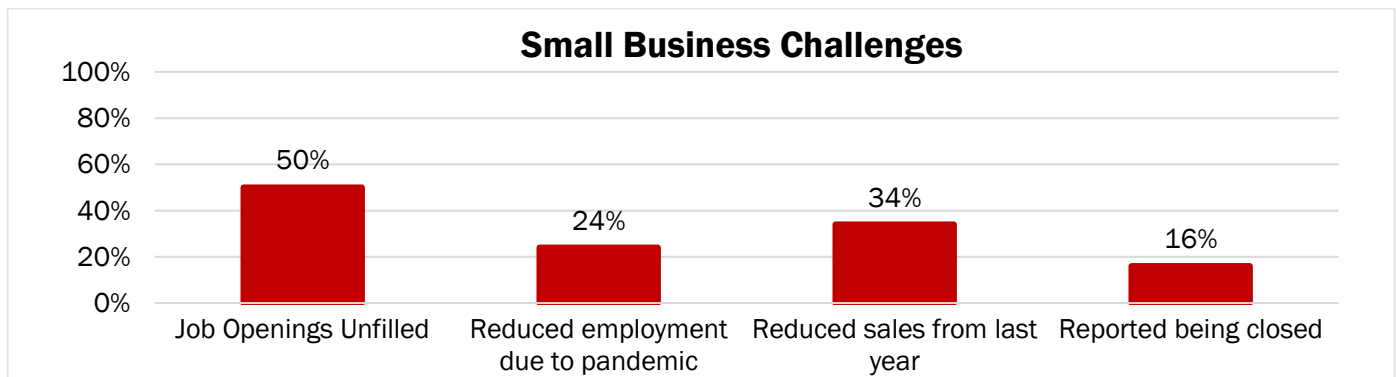
POLICY BRIEF



LABOR SHORTAGES HIT SMALL BUSINESS

While businesses across the board are struggling due to worker shortages, surveys show that small businesses, who have less ability to offer more generous pay and benefits, have been hit the hardest.¹ Although businesses may need to employ new methods to attract workers as the economy reopens, businesses should not be hindered in these efforts by the federal government.

- **Over a year into the pandemic, small businesses are still struggling to find workers.**
 - Rather than workers filling open positions as the economy has continued to reopen, job openings have climbed to new highs month after month.²
 - According to a National Federation of Independent Business survey, fifty percent of small business owners reported job openings in August 2021 that they were unable to fill, a 48-year record high.³
 - Additionally, surveys found half of small businesses have found it harder to find qualified workers compared to a year earlier and 28% identify this as their single most important problem.⁴
- **Challenges are widespread and persistent.**
 - Although business closure rates are falling across the U.S. from levels last year, closure rates remain elevated compared to pre-pandemic times. Further, minority-led small businesses were at least 50 percent more likely to report being closed than other small businesses.⁵
 - Sales overall are rising, but the majority of consumer-facing small businesses in retail and hospitality reported a reduction in sales compared to the same period last year.⁶
 - Small businesses in the U.S. continue to report reduced employment since the beginning of the year, including those in the transport and hospitality sectors who have been hit worst.⁷



Source: Facebook Global State of Small Business Report - September 2021

- **Small businesses are turning to technology and overtime to make up for shortages.**
 - Although 26 percent of small businesses plan to raise compensation in the next three months to attract workers, some experts say it isn't enough.⁸
 - Consequently, one survey finds nearly one in three small businesses adopted new systems or technology to sustain operations amid this worker shortage.⁹
 - Other businesses are turning to their existing workforce to pick up extra hours.¹⁰

- **The government shouldn't continue to suppress labor force participation.**

- While labor force participation has been trending downwards for years as the working population has aged, the pandemic caused it to free fall. The labor force participation rate fell roughly 3 percent from 63 to 60 percent in early 2020 and still hasn't fully recovered, leveling out at 61.7 percent in August 2021.¹¹
- Despite claims to the contrary, research from the Federal Reserve Bank of San Francisco found that the enhanced and extended unemployment insurance (UI) benefits disincentivize returning to work.¹² States that cut UI benefits earlier also have lower rates of unemployment on average.¹³
- Multiple rounds of stimulus payments also contributed to record high levels of disposable personal income and personal savings during the pandemic, allowing individuals to delay going back to work.¹⁴
- The Biden Administration has argued extending the enhanced child tax credit payments and subsidizing child care are necessary to get many parents back into the workforce, but simply giving parents money will not change the limited supply of care due to burdensome regulations that is dwindling further during the pandemic.¹⁵ (*Read more in RPC's brief entitled "The Truth About Biden's Child Care Takeover."*¹⁶)
- Further, research from the University of Chicago's Becker Friedman Institute finds Biden's American Families Plan proposal to extend and further enhance the child tax credit, which was temporarily enhanced under the American Rescue Plan Act, without work requirements would create sizable work disincentives and lead to 1.5 million workers leaving the labor force.¹⁷
- Despite continued pain felt by businesses experiencing worker shortages, the Biden administration announced it would establish vaccine mandates on businesses with more than 100 employees.¹⁸ As a result, 7 million affected employees across the country report that they will not get the vaccine even if the mandate is implemented.¹⁹

Whether enhanced child tax credits, UI benefits, or stimulus payments, government handouts can lead to or exacerbate worker shortages, because Americans learn to rely on government checks instead of those earned on their own. Burdensome government mandates coupled with handouts only make finding workers more difficult. Small businesses across the nation will be forced to close their doors or permanently turn to technology to replace workers if this trend continues.

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¹ Sheryl Sandberg. As Small Businesses Continue to Struggle Globally, Women and Minority-Led Ones Are Hardest Hit. Facebook. April 8, 2021. <https://about.fb.com/news/2021/04/latest-state-of-small-business-report/>

² Job Openings and Labor Turnover. Bureau of Labor Statistics U.S. Department of Labor. Tuesday 12, 2021. <https://www.bls.gov/news.release/pdf/jolts.pdf>

³ William C. Dunkelberg and Holly Wade. NFIB Small Business Economic Trends. August 2021. <https://assets.nfib.com/nfibcom/SBET-August-2021.pdf>

⁴ Eric Rosenbaum. America's small businesses still can't find workers, but that's not their biggest problem. Small Business Playbook. August 10, 2021. <https://www.cnbc.com/2021/08/10/the-labor-shortage-isnt-main-streets-biggest-problem.html> and William C. Dunkelberg and Holly Wade. NFIB Small Business Economic Trends/ August 2021. <https://assets.nfib.com/nfibcom/SBET-August-2021.pdf>

⁵ Christopher Hooton, Ph.D. Global State of Small Business. Facebook. September 2021. <https://dataforgood.fb.com/wp-content/uploads/2021/09/Global-State-of-Small-Business-Report-September-2021.pdf>

⁶ *Id.*

⁷ *Id.*

⁸ *Id.* and Ian Thomas. Raising wages isn't enough to attract and keep workers, experts say. Workforce Wire. September 1, 2021. <https://www.cnbc.com/2021/09/01/raising-wages-isnt-enough-to-attract-and-keep-workers-experts-say-.html>

⁹ Small Business Recovery Survey. Morning Consult + Version. August 2021. <https://www.verizon.com/about/sites/default/files/Small-Business-Recovery-Survey-9-8-2021.pdf>

¹⁰ Lauren Weber. Companies Use Overtime to Solve Worker Shortages. That May Cost Them More Workers. The Wall Street Journal. September 18, 2021. <https://www.wsj.com/articles/companies-use-overtime-to-solve-worker-shortages-that-may-cost-them-more-workers-11631937827>

¹¹ Labor Force Participation Rate. Fred Economic Data. October 8, 2021. U.S. Bureau of Labor Statistics, Labor Force Participation Rate [CIVPART], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CIVPART>, October 6, 2021.

¹² Nicolas Petrosky-Nadeau and Robert G. Valletta. UI Generosity and Job Acceptance: Effects of the 2020 CARES Act. Federal Reserve Bank of San Francisco. June 2021. <https://www.frbsf.org/economic-research/publications/working-papers/2021/13/>

¹³ Local Area Unemployment Statistics. U.S. Bureau of Labor Statistics. September 17, 2021. <https://www.bls.gov/web/laus/laumstrk.htm>

¹⁴ Real Disposable Personal Income. Fred Economic Data. October 1, 2021. U.S. Bureau of Economic Analysis, Real Disposable Personal Income [DSPIC96], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/DSPIC96>, October 6, 2021. and Personal Saving Rate. Fred Economic Data. October 1, 2021. U.S. Bureau of Economic Analysis, Personal Saving Rate [PSAVERT], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/PSAVERT>, October 7, 2021.

¹⁵ Treasury Releases Report Showing U.S. Childcare System Overburdens Families and Causes Shortages Due to Inadequate Supply. U.S. Department of the Treasury. September 15, 2021. <https://home.treasury.gov/news/press-releases/jy0354> and Angela Rachidi. The problem with childcare regulations. AEIdeas. January 24, 2020. <https://www.aei.org/poverty-studies/the-problem-with-child-care-regulations/> and Diana Thomas and Devon Gorry. Regulation and the Cost of Child Care. Mercatus Center George Mason University. August 17, 2015. <https://www.mercatus.org/publications/regulation/regulation-and-cost-child-care> and Heather Long. ‘The pay is absolute crap’: Child-care workers are quitting rapidly, a red flag for the economy. The Washington Post. September 19, 2021. <https://www.washingtonpost.com/business/2021/09/19/childcare-workers-quit/>

¹⁶ The Truth about Biden’s Childcare Takeover. House Republican Policy Committee. <https://republicanpolicy.house.gov/sites/evo-subsites/republicanpolicy.house.gov/files/evo-media-document/The%20Truth%20About%20Biden%27s%20Child%20Care%20Takeover.pdf>

¹⁷ Kevin Corinth, Bruce Meyer, Matthew Stadnicki, Derek Wu. The Anti-Poverty, Targeting, and Labor Supply Effects of the Proposed Child Tax Credit Expansion. Becker Friedman Institute. October 7, 2021. <https://bfi.uchicago.edu/working-paper/2021-115/>

¹⁸ Vaccinating the Unvaccinated. The White House. <https://www.whitehouse.gov/covidplan/>

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